

**BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001**

**MAIL PROCESSING NETWORK RATIONALIZATION  
SERVICE CHANGES, 2011**

**DOCKET No. N2012-1**

**SUPPLEMENTAL TESTIMONY OF  
  
MARC A. SMITH  
  
ON BEHALF OF THE  
  
UNITED STATES POSTAL SERVICE  
  
(USPS-ST-3)**

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## **ASSOCIATED LIBRARY REFERENCES**

**USPS-LR-N2012-1/91      Calculations in Support of Smith Supplemental  
Testimony**

**USPS-LR-N2012-1/96      National Consolidated Trial Balance (NCTB) Data  
For Feb 23 Network**

**USPS-LR-N2012-1/91 contains the spreadsheets for Tables ST 1-ST 8 and  
associated support spreadsheets. USPS-LR-N2012-1/96 contains the FY  
2010 National Consolidated Trial Balance (NCTB) data reflecting the  
updated determination of active and inactive facilities from USPS-LR-  
N2012-1/82.**

1     **I.       Purpose of Supplemental Testimony**

2           The purpose of this supplemental testimony is to update the annual cost  
3 savings presented in my direct testimony (USPS-T-9), which was entered into  
4 evidence at page 1596 of Tr. Vol. 5 on March 23, 2012. My direct testimony  
5 provided the annual cost savings that will accrue to the Postal Service as a result  
6 of the Mail Processing Network Rationalization Service Changes initiative and  
7 was based, in general terms, on assumed implementation of the mail processing  
8 operational consolidations set forth in the various operations testimonies at the  
9 time of the filing of the Request in this docket on December 5, 2011. My  
10 supplemental testimony incorporates my direct testimony by reference and  
11 presents updated annual savings estimates based on the operational  
12 consolidation decisions announced on February 23, 2012.

13          As done in my direct testimony, the annual savings estimates are  
14 expressed in FY 2010 terms and are of “full-up” cost savings that will accrue to  
15 the Postal Service as a result of the Mail Processing Network Rationalization  
16 Service Changes initiative. I have updated the maintenance and other savings  
17 related to mail processing equipment and facility space (in parts II and III of my  
18 testimony), and also the savings due to workload reductions (in part IV).<sup>1</sup> I have  
19 made updates based on the supplemental testimony of witnesses Bratta (USPS-  
20 ST-1) and Neri (USPS-ST-5), the updated determination of the list of active and  
21 inactive facilities (USPS-LR-N2012-1/82), the updated determination of

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<sup>1</sup> This supplemental testimony provides updates for my direct testimony Tables 3-9 and 11 as contained in USPS-LR-N2012-1/91. Tables 1, 2 and 10, as well as Attachments 1-3 are not affected by this update.

1 equipment by site (USPS-LR-N2012-1/83), and updated information from  
2 Facilities on rent savings and revenues from the sale of facilities. Part V of this  
3 testimony provides the annual savings associated with my direct testimony  
4 (USPS-T-9) Table 11, including the updates from this supplemental testimony.

## 5 **II. Mail Processing Equipment Related Savings Updated**

6 As I noted in my direct testimony, an important benefit of the revision to  
7 First-Class Mail service standards is that the revised service standards permit a  
8 significant reduction in the amount of equipment needed. Much less equipment  
9 is needed to run the same volume of mail due to a more level workload. The  
10 reduction in the number of Delivery Barcode Sorters (DBCS) associated with the  
11 Feb 23<sup>rd</sup> network is 2,227, or nearly a 40 percent reduction. DBCS would go  
12 from the FY2010 mid-year total of 5,916 to 3,689, permitting much savings in  
13 maintenance and parts and supplies.<sup>2</sup>

14 I have updated the mail processing equipment-related savings in  
15 maintenance labor, parts and supplies given witness Bratta's supplemental  
16 testimony (USPS-ST-1) and the updated determination of equipment  
17 requirements, as per USPS-LR-N2012-1/83.

18 Table ST 1, below, is an update of mail processing maintenance labor  
19 savings provided in my direct testimony Table 3. It is based on witness Bratta's  
20 updated estimates of reductions in authorized positions for maintenance of  
21 processing equipment (LDC 36) and administrative non-supervisory positions  
22 (LDC 39) contained in USPS-LR-N2012-1/80. These updated reductions are

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<sup>2</sup> Docket No. ACR 2010, USPS-FY10-8 and USPS-LR-N2012-1/83. DBCS totals used here include Delivery Barcode Sorter w/Input Output Sub-System (DIOSS) and Combined Input Output Sub-System (CIOSS).

- 1 highlighted or shaded in Table ST 1 and all other calculations are as done in  
 2 Table 3 of my direct testimony (USPS-T-9).

<b>Table ST 1: Mail Processing Equipment Maintenance Labor Savings</b>					
<b>Labor Type</b>	<b>Change in Authorized Positions</b>	<b>Average Annual Rate*</b>	<b>Labor Cost Savings</b>	<b>Service-Wide Benefits</b>	<b>Total Savings</b>
---- in millions ----					
<b>Postal Operating Equipment</b>	2,563	\$ 81,914	\$210.0	\$ 23.4	\$233.4
<b>Administrative</b>	286	\$ 72,933	\$ 20.9	\$ 2.3	\$ 23.2
<b>Supervision</b>	229	\$ 97,300	\$ 22.3	\$ 2.5	\$ 24.8
<b>Total</b>			\$253.1	\$ 28.2	\$281.4
*Average Annual Rate from Attachment 2 of USPS-T-9.					

- 3
- 4 Table ST 2, below, is an update of my direct testimony Table 4. The  
 5 updated data is highlighted. This includes the updated estimate by witness  
 6 Bratta (USPS-ST-1) of savings in processing equipment parts and supplies of  
 7 \$42.5 million (see USPS-LR-N2012-1/81). In addition, the update of \$8.9 million  
 8 in BDS cartridges savings is based on the updated Advanced Facer Canceler  
 9 Systems (AFCS) requirements by site, as per USPS-LR-N2012-1/83. This  
 10 information was used to determine the reduced need for Biohazard Detection  
 11 System (BDS) cartridges, going from 520 currently to 375, a 28 percent  
 12 reduction, as calculated in USPS-LR-N2012-1/91. The FY2010 BDS cartridge  
 13 expense was \$32.0 million, so a 28 percent reduction is \$8.9 million. Finally, the  
 14 third component is the \$2 million decline in miscellaneous postal supplies and  
 15 services associated with the labor savings (excluding service wide benefits) in  
 16 maintenance personnel costs shown above in Table ST 1.

1

<b>Table ST 2: Mail Processing Equipment Parts and Supplies Savings</b>	
	<b>Total Savings</b>
	in millions
Spare Parts	\$ 42.5
BDS Cartridge Reduction	\$ 8.9
Miscellaneous Postal Supplies and Services	\$ 2.0
Total	\$ 53.4

2

3 **III. Facility Related Savings Updated**

4 In this testimony, based on witness Bratta's supplemental testimony  
5 (USPS-ST-1), an updated list of active and inactive facilities, and updated  
6 information from Facilities, I put forth an estimate of the annual savings (in  
7 FY2010 costs or dollars) due to no longer needing the Inactive sites for  
8 processing. These savings include: building and custodial labor savings; utilities  
9 and heating fuel; custodial supplies and services; rents and annual earnings  
10 associated with the utilization of the facility sale proceeds.

11 Table ST 3, below, is an update of facility and custodial maintenance labor  
12 savings provided in my direct testimony Table 5. It is based on witness Bratta's  
13 updated estimates of reductions in authorized positions for maintenance of  
14 building equipment (LDC 37) and custodial maintenance positions (LDC 38)  
15 contained in USPS-LR-N2012-1/80. These updated reductions are highlighted in  
16 Table ST 3, and all other calculations are as done in Table 5 of my direct  
17 testimony (USPS-T-9).

<b>Table ST 3: Facility Maintenance and Custodial Labor Savings</b>					
<b>Labor Type</b>	<b>Change in Authorized Positions</b>	<b>Average Annual Rate*</b>	<b>Labor Cost Savings</b>	<b>Service-Wide Benefits</b>	<b>Total Savings</b>
			---- in millions ----		
<b>Building Maintenance</b>	376	\$ 75,980	\$ 28.5	\$ 3.2	\$ 31.7
<b>Custodial Maintenance</b>	1,416	\$ 67,570	\$ 95.7	\$ 10.7	\$106.4
<b>Supervision</b>	144	\$ 97,300	\$ 14.0	\$ 1.6	\$ 15.6
<b>Total</b>			\$ 138.3	\$ 15.4	\$153.7
<b>*Average Annual Rate from Attachment 2 of USPS-T-9.</b>					

3 Table ST 4, below, is an update of my direct testimony Table 6 to update  
 4 the savings in facility-related utilities and supplies. The updated inputs are  
 5 highlighted. Updating the utility and supplies expenses for Inactive sites is done  
 6 using the updated list of Active and Inactive facilities (USPS-LR-N2012-1/82),  
 7 along with the use of FY2010 accounting costs by finance number for the mail  
 8 processing facilities, as done in USPS-LR-N2012-1/96. The computation of  
 9 costs for Inactive facilities is shown in USPS-LR-N2012-1/91. In addition,  
 10 "Percentage of Inactive Site Space for Processing" is updated to be consistent  
 11 with witness Bratta's updated determination of space at Inactive facilities  
 12 requiring building equipment and custodial maintenance. As witness Bratta  
 13 indicates in USPS-ST-1, to determine maintenance personnel staffing at Inactive  
 14 sites in USPS-LR-N2012-1/80, he has used the data on the amount of space at  
 15 Inactive sites associated with non-processing activities and also platform space  
 16 for those facilities that have cross-docking operations. I have used that  
 17 information to determine that, of the 19.6 million sq. ft. of facility space for  
 18 Inactive sites, there is approximately 3.4 million sq. ft. associated with non-



processing and cross-docking operations, or 17.2 percent, as shown in USPS-LR-N2012-1/91. The percentage of space at such facilities no longer requiring building and custodial maintenance is therefore 82.8 percent, and this is the share of the Inactive facilities utility and supplies costs that are estimated to be saved consistent with my direct testimony calculations.

<b>Table ST 4: Facility-Related Utilities and Supplies Savings</b>			
	<b>Expenses for Inactive Sites*</b>	<b>Percentage of Inactive Site Space for Processing</b>	<b>Total Savings</b>
	in millions		in millions
Utilities and Heating Fuel	\$ 58.5	82.8%	\$ 48.5
Custodial Supplies and Services	\$ 14.0	82.8%	\$ 11.6
Miscellaneous Postal Supplies and Services			\$ 1.1
Total			\$ 61.2
*Expenses for Inactive Sites Based on PSFR data.			

Facilities has provided updated information, based on their ongoing work, to update rents saved on leased space and revenues associated with the sale of owned facilities. As reported in my direct testimony, Facilities has been tasked to estimate these types of savings for the buildings and properties associated with Inactive sites (or sites for which processing operations will be removed). An important point from among Facilities' findings is that, although mail processing may be eliminated from these buildings, most have other operations such as retail, delivery, BMEU, mail transportation, administrative, or vehicle maintenance. Based on the value of the building and the cost to relocate operations, quite often the best financial alternative is to remain in the current

1 building, even if there is considerable space that is not utilized.

2 The portion of the Inactive sites that may be disposed as well as the  
3 associated potential financial value of doing so are based on the following  
4 assumptions:

- 5 • disposition of mail processing operations is based on decisions made on  
6 February 23, 2012, concerning the AMP studies;
- 7 • barriers to dispose of buildings such as BMEU and transportation hubs are  
8 assumed to be resolvable and the cost to resolve is not included in the  
9 values below;
- 10 • one time revenue is based on broker opinions of value (BOV) and not  
11 certified appraisals; and
- 12 • one time capital cost is based on preliminary information on operational  
13 layout and other operational needs and is an engineering estimate.

14 Given this, the Postal Service may be able to fully vacate 80 buildings totaling  
15 11.4 million square feet. This would result in a financial breakdown as follows:

- 16 • \$326 million one time revenue;
- 17 • \$50 million one time capital cost; and
- 18 • \$8.1 million annual lease savings.

19 The \$50 million estimated capital cost is for the design/construction of alternate  
20 quarters (both delivery and retail) or renovations at other existing buildings to  
21 allow consolidation and disposal of mail processing facilities. As noted, this cost  
22 does not include the funds necessary to reconcile hub and BMEU conflicts. Note  
23 that the capital cost and revenue is only for the disposal of mail processing

1 facilities. There is also revenue potential in the buildings retained by disposing of  
2 other assets and moving the operations into the retained buildings.

3 Based on this, the annual savings obtainable after a transition is complete  
4 would consist of \$8.1 million annual lease savings plus the annual benefit  
5 associated with the net revenue of \$276 million (= \$326 million - \$50 million). As  
6 indicated in my direct testimony, it is my view that the Postal Service could put  
7 these funds to use making capital investments for postal plant, equipment or  
8 vehicles, earning at least a 10 percent annual return.<sup>3</sup> On this basis, the annual  
9 “savings” stemming from the \$276 million in net revenue is 10 percent of this, or  
10 \$27.6 million. This is summarized in Table ST 5, which is an update of Table 7.

<b>Table ST 5: Facility Lease and Sale Related Savings</b>	
	<b>Total Annual Savings</b>
	in millions
Potential Annual Earnings from Facility Sales Proceeds	\$ 27.6
Potential Rent Savings	\$ 8.1
Total	\$ 35.7

#### 11 12 **IV. Workload Reduction Savings Updated**

13 In USPS-T-9, at 21-25, I provided three quantifications of workload  
14 reductions stemming from the proposed network consolidation, as listed below:

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<sup>3</sup> The basis for this view is summarized in the United States Postal Service's 2011 Report on Form 10-K, at page 9, where the following risk is acknowledged: “Due to our current cash constraints, our operational performance in the future could be at risk as a result of inadequate capital investment in transportation equipment, mail processing equipment, facilities, or information technology which are either essential to operations or to improve the quality of our services.”

- 1           1. Elimination or reduction of outgoing secondary sorting;
- 2           2. Complete elimination of CSBCS and UFSM 1000 sortation; and
- 3           3. Additional letter automated incoming secondary and DPS sorting.

4   These types of savings are obtainable under the February 23<sup>rd</sup> network, though  
5   the quantification needs to be updated for the first two listed above.

6           Reduction in Outgoing Secondary Sorting

7           Witness Neri indicates in his supplemental testimony (USPS-ST-5) that  
8   despite the larger number of facilities in the February 23<sup>rd</sup> network, he would still  
9   expect the proposed February 23<sup>rd</sup> network to enable the elimination of outgoing  
10   secondary sorting for letters. In the case of flats, witness Neri (USPS-ST-5)  
11   indicates that he would not expect to be able to obtain the same reduction for  
12   outgoing secondary sorting under the February 23<sup>rd</sup> network that was anticipated  
13   in his direct testimony.

14          In USPS-T-9, at 23, Table 8 shows an estimated annual volume reduction  
15   in outgoing secondary sorting for flats of 204.2 million TPH, leading to annual  
16   saving of \$4.5 million. The estimated reduction was based on the modeling of  
17   outgoing primary sorting for flats under the originally proposed network (See  
18   USPS-LR-N2012-1/38 and USPS-LR-N2012-1/NP5). For the purposes of this  
19   update, I assume that there will be no reduction in flats outgoing secondary  
20   sorting under the February 23<sup>rd</sup> network. Table ST 6, below, which updates  
21   Table 8 of my direct testimony, summarizes these updated savings.

1

<b>Table ST 6: Savings Due to Reduction in Outgoing Secondary Sorting</b>						
<b>Equipment Type</b>	<b>Annual Volume Reduction in Outgoing Secondary (TPH)</b>	<b>Labor Savings per TPH</b>	<b>Labor Cost Savings</b>	<b>Service-Wide Benefits</b>	<b>Miscellaneous Postal Supplies and Services</b>	<b>Total Savings</b>
		in cents	--- in millions ---			
DBCS	3,981,560,824	0.4111	\$ 16.4	\$ 1.8	\$ 0.1	\$ 18.3
AFSM 100, UFSM 1000	0	1.9539	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Total			\$ 16.4	\$ 1.8	\$ 0.1	\$ 18.3

2

3 Reduction of CSBCS and UFSM 1000 Sortation

4 Under the proposed February 23<sup>rd</sup> network, CSBCS workload would still  
5 migrate to the DBCS and likewise UFSM 1000 workload will still migrate to the  
6 AFSM 100, resulting in less processing costs, as indicated in my direct  
7 testimony. These savings estimates are updated in Table ST 7, which updates  
8 Table 9 of my direct testimony. Two updates are made to be consistent with the  
9 February 23<sup>rd</sup> network and to be more accurate. First, UFSM 1000s are not  
10 completely removed; four will remain in use as per USPS-LR-N2012-1/83.  
11 Second, I base my estimate of CSBCS and UFSM 1000 volumes to be  
12 eliminated on the current deployments of this equipment rather than the end of  
13 year FY2011 deployment for this equipment as done in my direct testimony.  
14 Table ST 7 shows the summary of calculations, which are further detailed in  
15 USPS-LR-N2012-1/91.

1

<b>Table ST 7: Savings Due to Reducing CSBCS and UFSM 1000 Sortation</b>						
<b>Equipment Type</b>	<b>Annual Volume Eliminated</b>	<b>Labor Savings per piece</b>	<b>Labor Cost Savings</b>	<b>Service-Wide Benefits</b>	<b>Miscellaneous Postal Supplies and Services</b>	<b>Total Savings</b>
		in cents	--- in millions ---			
CSBCS	1,260,507,523	0.44	\$ 5.6	\$ 0.6	\$ 0.0	\$ 6.2
UFSM 1000	512,170,362	1.11	\$ 5.7	\$ 0.6	\$ 0.0	\$ 6.3
Total			\$ 11.2	\$ 1.3	\$ 0.1	\$ 12.6

2

### 3 **V. Summary of Updated Cost Savings**

4 Table ST 8 below is an update of Table 11 from my direct testimony,  
5 USPS-T-9. It summarizes Tables ST 1 to ST 7 in this testimony and also  
6 includes the savings from Table 10 of my direct testimony, for which savings are  
7 not changed under the February 23<sup>rd</sup> network. Again, as discussed in my direct  
8 testimony, these savings are “full-up” savings—annual ongoing savings once a  
9 full transition is made. Also, these are the savings in terms of FY 2010, as if the  
10 plan of consolidating mail processing, currently under study, had been in place  
11 and “full up” during FY 2010.<sup>4</sup> These updates reflect the supplemental  
12 testimonies of Witnesses Bratta (USPS-ST-1) and Neri (USPS-ST-5), as well as  
13 the updates contained in the determination of Active and Inactive facilities  
14 (USPS-LR-N2012-1/82) and for equipment (USPS-LR-N2012-1/83).

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<sup>4</sup> FY2010 costs are from Docket No. ACR2010 costs and data, supplemented as well with additional FY2010 cost information.

<b>Table ST 8: Summary of Savings for Direct and Supplemental Testimony</b>	
<b>(in terms of FY2010 Costs)</b>	<b>in millions</b>
Mail Processing Equipment	
Maintenance Labor	\$ 281.4
Parts and Supplies (including BDS cartridges)	\$ 53.4
Depreciation of Equipment	
Subtotal	\$ 334.7
Facility Related Savings	
Building Maintenance and Custodial Labor	\$ 153.7
Utilities and Heating Fuel	\$ 48.5
Supplies and Contractor Costs	\$ 12.7
Rents and Earnings on Sales Proceeds	\$ 35.7
Subtotal	\$ 250.5
Workload Reduction Savings	
Reduction in Outgoing Secondary Sorting	\$ 18.3
Replacement of CSBCS and UFSM 1000 Sortation	\$ 12.6
Additional Letter Automated Sorting (e.g. DPS)	\$ 36.0
Subtotal	\$ 66.9
Total for Testimony	\$ 652.2